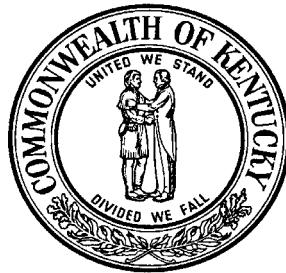


**REPORT OF THE AUDIT OF THE  
CRITTENDEN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CRITTENDEN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2002**

The Auditor of Public Accounts has completed the Crittenden County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances decreased by \$172,380 from the beginning of the year, resulting in a cash surplus of \$662,172 as of June 30, 2002.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$132,871 as of June 30, 2002. Future principal and interest payments of \$150,952 are needed to meet these obligations.

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Victor P. Hardin, Crittenden County Judge/Executive

Members of the Crittenden County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity balances arising from cash transactions of Crittenden County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Crittenden County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Crittenden County Hospital, Incorporated. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Crittenden County Hospital, Incorporated, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Crittenden County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Victor P. Hardin, Crittenden County Judge/Executive  
Members of the Crittenden County Fiscal Court

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity balances of Crittenden County, Kentucky as of June 30, 2002, and the receipts and disbursements for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2003 on our consideration of Crittenden County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Crittenden County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 4, 2003



CRITTENDEN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

**Fiscal Court Members:**

Victor P. Hardin	County Judge/Executive
Junior Martin	Magistrate
Roger Simpson	Magistrate
Curt Buntin	Magistrate
Percy Cook	Magistrate
Tina Tabor	Magistrate
Bobby Don Crowell	Magistrate

**Other Elected Officials:**

Alan Stout	County Attorney
Jerry Gilland	Jailer
Carloyn Byford	County Clerk
Madeline Henderson	Circuit Court Clerk
Wayne Agent	Sheriff
Ronnie Heady	Property Valuation Administrator
Terry Gilbert	Coroner

**Appointed Personnel:**

Roberta Shewmaker	County Treasurer
Beth Belt and Sue Padget	Finance Officers
Burnice Kirk	Road Supervisor
Beth Belt and Sue Padget	911 Administrators



STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS



CRITTENDEN COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 677,120	\$ 1,132	\$ 678,252
Total Assets	\$ 677,120	\$ 1,132	\$ 678,252
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for Capital Leases (Note 4)	\$ 132,871		\$ 132,871
Total Assets and Other Resources	<u>\$ 809,991</u>	<u>\$ 1,132</u>	<u>\$ 811,123</u>

The accompanying notes are an integral part of the financial statements.

CRITTENDEN COUNTY  
 STATEMENT OF ASSETS, LIABILITIES,  
 AND EQUITY ARISING FROM CASH TRANSACTIONS  
 June 30, 2002  
 (Continued)

	<u>Governmental Fund Types</u>		<u>Totals</u> <u>(Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Capital Leases (Note 4)	\$ 132,871	\$	\$ 132,871
Payroll Liabilities	<u>16,080</u>	<u></u>	<u>16,080</u>
Total Liabilities	<u>\$ 148,951</u>	<u>\$ 0</u>	<u>\$ 148,951</u>
<u>Fund Balances</u>			
Fund Balances:			
Unreserved	<u>\$ 661,040</u>	<u>\$ 1,132</u>	<u>\$ 662,172</u>
Total Liabilities and Fund Balances	<u><u>\$ 809,991</u></u>	<u><u>\$ 1,132</u></u>	<u><u>\$ 811,123</u></u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

CRITTENDEN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Types</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,290,849	\$ 731,074	\$ 1,334,142	\$ 98,413
Other Financing Sources:				
Transfers In	408,736	220,461	23,396	164,879
Kentucky Advance Revenue Program	540,600	284,300	256,300	
Other Receipts:				
Regular 911 Fees	16,927			
Wireless 911 Fees	12,208			
Interest	3,479			
Total Cash Receipts	<u>\$ 3,272,799</u>	<u>\$ 1,235,835</u>	<u>\$ 1,613,838</u>	<u>\$ 263,292</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,307,290	\$ 707,289	\$ 1,335,953	\$ 219,965
Other Financing Uses:				
Schedule of Unbudgeted Expenditures	156,409			
Transfers Out	408,736	164,879	195,461	25,000
Capital Lease:				
Principal Paid	32,144	7,000	17,044	8,100
Kentucky Advance Revenue Program Repaid	540,600	284,300	256,300	
Total Cash Disbursements	<u>\$ 3,445,179</u>	<u>\$ 1,163,468</u>	<u>\$ 1,804,758</u>	<u>\$ 253,065</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (172,380)	\$ 72,367	\$ (190,920)	\$ 10,227
Cash Balance - July 1, 2001	<u>834,552</u>	<u>79,181</u>	<u>496,110</u>	<u>2,623</u>
Cash Balance - June 30, 2002	<u>\$ 662,172</u>	<u>\$ 151,548</u>	<u>\$ 305,190</u>	<u>\$ 12,850</u>

The accompanying notes are an integral part of the financial statements.



CRITTENDEN COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2002  
(Continued)

General Fund Types			Special Revenue Fund Types	
Local Government Economic Assistance Fund	North Pennyrite E-911 Board Fund	Anonymous Gift Fund	Federal Emergency Management Agency Grant Fund	E-911 Wireless Fund
\$ 127,220	\$	\$	\$	\$
	16,927			12,208
	642	2,371	444	22
\$ 127,220	\$ 17,569	\$ 2,371	\$ 444	\$ 12,230
\$ 44,083	\$	\$	\$	\$
	3,015	137,538	4,758 23,396	11,098
\$ 44,083	\$ 3,015	\$ 137,538	\$ 28,154	\$ 11,098
\$ 83,137 66,939	\$ 14,554 26,822	\$ (135,167) 135,167	\$ (27,710) 27,710	\$ 1,132
\$ 150,076	\$ 41,376	\$ 0	\$ 0	\$ 1,132

The accompanying notes are an integral part of the financial statements.

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Crittenden County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Crittenden County Hospital, Incorporated as a component unit of the reporting entity. The Crittenden County Hospital, Incorporated is discretely presented in Appendix B.

The fiscal court is able to impose its will on the governing body of the Crittenden County Hospital, Incorporated because they appoint a majority of the governing body. The fiscal court can significantly influence the activities of the board.

Additional - Crittenden County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Crittenden County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Crittenden County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Crittenden County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, North Pennyryle E-911 Board Fund, and the Anonymous Gift Fund.

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Crittenden County Special Revenue Fund Type includes the following county funds: Federal Emergency Management Agency Grant Fund and the E-911 Wireless Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Crittenden County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Cash Equivalents

Cash includes amounts in bank accounts.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Crittenden County Industrial Foundation is considered related organization of Crittenden County Fiscal Court.

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture.

The Crittenden County Fiscal Court has entered into an agreement with the City of Marion to create the Marion-Crittenden County Industrial Development Authority. The Authority was created for the purpose of serving as an agency to aid in the acquisition, development, and retention of industrial opportunities in Crittenden County.

The Crittenden County-Livingston County Water District was formed by Crittenden County and Livingston County to facilitate the financing of water projects in the areas adjoining both counties.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

CRITTENDEN COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2002  
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

A. Voting Machines

The Crittenden County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust on October 12, 1993 for the purchase of thirteen voting machines. The issue amount of the lease was \$55,000 at a variable interest rate. Interest payments are made monthly and principal is paid once a year in January. The principal balance of the lease as of June 30, 2002 was \$7,000. Remaining lease principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 205	\$ 7,000

B. Road Grader

The Crittenden County Fiscal Court entered into a lease agreement with the Brandeis Machinery and Supply Company on February 8, 2000 for the purchase of a road grader. (This lease agreement was subsequently assigned to Komatsu Financial Limited Partnership.) The issue amount of the lease was \$108,900 with an interest rate of 5.34%. Interest and principal payments are made monthly. The principal balance of the lease as of June 30, 2002 was \$70,871. Future lease principal and interest requirements are:

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 4. Long-Term Debt (Continued)

B. Road Grader (Continued)

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 3,276	\$ 17,977
2004	2,293	18,960
2005	1,255	19,998
2006	232	13,936
Totals	<u>\$ 7,056</u>	<u>\$ 70,871</u>

C. Detention Facility

The Crittenden County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust on November 19, 1997 for the purpose of financing renovations to the Crittenden County Detention Facility. The issue amount of the lease was \$88,000 with an interest rate of 6.24%. Interest and principal payments are made twice each year during November and May. The principal balance of the lease as of June 30, 2002 was \$55,000. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2003	\$ 3,298	\$ 8,700
2004	2,749	9,200
2005	2,165	9,800
2006	1,544	10,400
2007	883	11,100
2008-2012.	181	5,800
Totals	<u>\$ 10,820</u>	<u>\$ 55,000</u>

CRITTENDEN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2002  
(Continued)

Note 5. Commitments and Contingencies - Kentucky Area Development Districts Financing Trust Lease Subleased to Crittenden County Hospital, Incorporated

The Crittenden County Fiscal Court entered into a lease with the Kentucky Area Development Districts Financing Trust on January 2, 1997 for the purpose of financing the acquisition of a nursing home for the benefit of the Crittenden County Hospital, Incorporated, in the amount of \$3,100,000. The county then entered into a sublease agreement with the Crittenden County Hospital, Incorporated to rent the project for a period of ten years, with an option to renew the sublease. The Crittenden County Hospital, Incorporated is responsible for the rental payments and began making payments May 20, 1997. The Crittenden County Hospital, Incorporated is in substantial compliance with the sublease agreement. The principal balance as of June 30, 2002 was \$2,539,700.

Note 6. Transportation Grant

The Ohio River Ferry Authority, Incorporated through the Crittenden County Fiscal Court obtained a grant from the Kentucky Transportation Cabinet to provide for the operation of a ferry service across the Ohio River between Crittenden County, Kentucky and Hardin County, Illinois. On November 8, 1994, the Ohio River Ferry Authority, Incorporated entered into an agreement with the Cave-In-Rock-Ferry Company, Incorporated to operate the ferry service. Grant receipts for fiscal year 2002 were \$520,309 and expenditures for fiscal year 2002 were \$520,309.

Note 7. Industrial Revenue Bonds

On June 16, 1998, the Marion-Crittenden County Industrial Development Authority, a joint venture of the Crittenden County Fiscal Court, entered into a new bond issue for the purpose of constructing an addition to the existing facility owned by Par-4 Plastics, Incorporated located in Marion, Kentucky. These bonds will have a 20-year life, with an approximate interest rate of 6.5%. The original agreement required by Ross, Sinclair and Associates, the underwriter, to appropriate \$2,400,000 for the purpose of purchasing from the Marion-Crittenden County Industrial Authority, the Industrial Revenue Bonds, Series 1998 for the total purchase price of \$2,352,000 on or before July 1, 2008. The semi-annual payments are to be made on the 1<sup>st</sup> of July and January.

Note 8. Insurance

For the fiscal year ended June 30, 2002, Crittenden County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



CRITTENDEN COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 787,757	\$ 731,074	\$ (56,683)
Road and Bridge Fund	1,355,366	1,334,142	(21,224)
Jail Fund	123,041	98,413	(24,628)
Local Government Economic Assistance Fund	43,500	127,220	83,720
Totals	<u>\$ 2,309,664</u>	<u>\$ 2,290,849</u>	<u>\$ (18,815)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 2,309,664
Add: Budgeted Prior Year Surplus	595,000
Less: Other Financing Uses	<u>(32,144)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 2,872,520</u>

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SCHEDULE OF OPERATING REVENUE



CRITTENDEN COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

	<u>GOVERNMENTAL FUND TYPE</u>
<u>Revenue Categories</u>	<u>General Fund Types</u>
Taxes	\$ 409,402
Excess Fees	43,219
Licenses and Permits	28
Intergovernmental Revenues	1,133,007
Charges for Services	18,296
Miscellaneous Revenues	661,884
Interest Earned	25,013
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Total Operating Revenue	<u>\$ 2,290,849</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



CRITTENDEN COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 377,193	\$ 320,572	\$ 56,621
Protection to Persons and Property	296,100	251,996	44,104
General Health and Sanitation	63,675	58,170	5,505
Social Services	1,000	1,000	
Recreation and Culture	52,200	2,183	50,017
Transportation Facilities and Services	8,000	5,246	2,754
Roads	1,054,926	784,124	270,802
Airports	1,000	1,000	
Other Transportation Facilities and Services	524,204	520,313	3,891
Debt Service		15,671	(15,671)
Capital Projects	6,400	3,684	2,716
Administration	487,822	343,331	144,491
Total Operating Budget - General Fund Types	\$ 2,872,520	\$ 2,307,290	\$ 565,230
Other Financing Uses:			
Capital Lease Agreement-Voting Machines			
Principal on Lease	7,000	7,000	
Capital Lease Agreement-Road Grader			
Principal on Lease	17,044	17,044	
Capital Lease Agreement-Jail Renovation			
Principal on Lease	8,100	8,100	
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 2,904,664</u>	<u>\$ 2,339,434</u>	<u>\$ 565,230</u>

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SCHEDULE OF UNBUDGETED EXPENDITURES



CRITTENDEN COUNTY  
SCHEDULE OF UNBUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	North Pennyrite E-911 Board Fund	Anonymous Gift Fund	Federal Emergency Management Agency Grant Fund	E-911 Wireless Fund
Maps	\$ 3,015	\$	\$	\$ 11,074
Donations-				
County-City Park		50,000		
EDC-Technology Center		87,538		
Refund of Interest Earned				
To Federal Emergency				
Management Agency			4,758	
Miscellaneous				24
Totals	\$ 3,015	\$ 137,538	\$ 4,758	\$ 11,098

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Victor P. Hardin, Crittenden County Judge/Executive  
Members of the Crittenden County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Crittenden County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated June 4, 2003. We did not audit the financial statements of the Crittenden County Hospital, Incorporated. Other auditors audited those financial statements and their report was furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Crittenden County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crittenden County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
June 4, 2003

CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

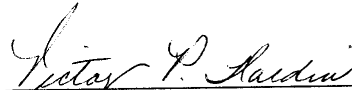
CRITTENDEN COUNTY FISCAL COURT

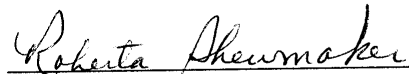
For The Fiscal Year Ended  
June 30, 2002

CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
CRITTENDEN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

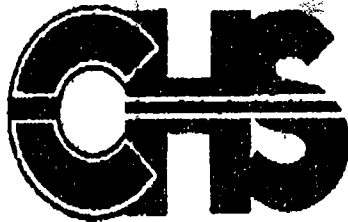
The Crittenden County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Victor P. Hardin  
County Judge/Executive

  
\_\_\_\_\_  
Roberta Shewmaker  
County Treasurer

CRITTENDEN COUNTY HOSPITAL, INCORPORATED

For The Years Ended  
September 30, 2001 and 2002



Crittenden  
Health  
Systems

*"Caring for the Community"*

REPORT ON AUDIT OF FINANCIAL STATEMENTS  
for the years ended September 30, 2002 and 2001



**H&A ASSOCIATES, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS &  
BUSINESS CONSULTANTS



3

**CRITTENDEN COUNTY HOSPITAL, INC.**

**FINANCIAL STATEMENTS**

**September 30, 2002 and 2001**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Crittenden County Hospital, Inc.  
Marion, Kentucky

We have audited the accompanying balance sheets of Crittenden County Hospital, Inc. (a not-for-profit corporation) as of September 30, 2002 and 2001, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crittenden County Hospital, Inc. as of September 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*EKW & Associates, LLP*

Owensboro, Kentucky  
December 11, 2003

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**CRITTENDEN COUNTY HOSPITAL, INC.****Balance Sheets****September 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 1,203,482	\$ 518,816
Assets whose use is limited-current liabilities	339,486	326,899
Patient accounts receivable, net of estimated uncollectibles of \$2,044,016 and \$2,119,549, respectively	2,386,723	3,796,978
Estimated third-party settlements	303,213	
Inventories	558,422	655,017
Other current assets	176,028	285,486
Total current assets	<u>4,967,354</u>	<u>5,583,196</u>
Assets whose use is limited	5,105,930	5,586,562
Less amount required to meet current obligations	<u>339,486</u>	<u>326,899</u>
	<u>4,766,444</u>	<u>5,259,663</u>
Property and equipment, net	10,503,723	10,926,532
Other non-current assets	90,706	97,284
	<u>10,594,429</u>	<u>11,023,816</u>
Total assets	<u>\$ 20,328,227</u>	<u>\$ 21,866,675</u>

	<u>2002</u>	<u>2001</u>
<b>Liabilities and Net Assets:</b>		
Current liabilities:		
Current portion-notes payable	\$ 342,100	\$ 320,300
Accounts payable	314,272	501,911
Accrued expenses	816,929	684,708
Estimated third-party settlements	-	1,617,570
Other current liabilities	<u>315,161</u>	<u>426,626</u>
Total current liabilities	<u>1,788,462</u>	<u>3,551,115</u>
Long-term debt, net of current portion	<u>7,341,126</u>	<u>7,678,526</u>
Total liabilities	<u>9,129,588</u>	<u>11,229,641</u>
<b>Net Assets:</b>		
Unrestricted	<u>11,198,639</u>	<u>10,637,034</u>
Total net assets	<u>11,198,639</u>	<u>10,637,034</u>
	<u>\$ 20,328,227</u>	<u>\$ 21,866,675</u>

The accompanying notes are an integral part of these financial statements

**CRITTENDEN COUNTY HOSPITAL, INC.****Statements of Operations****September 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Unrestricted revenues, gains and other support:</b>		
Net patient service revenue	\$ 22,371,416	\$ 20,440,229
Other operating revenue	241,741	399,027
Investment income	51,114	472,896
Gain on sale of equipment	<u>9,779</u>	<u>12,497</u>
 Total unrestricted revenues, gains and other support	 <u>22,674,050</u>	 <u>21,324,649</u>
 <b>Expenses:</b>		
Salaries and benefits	12,304,765	11,581,560
Supplies and other	4,992,290	5,274,622
Other professional services	1,628,724	1,875,313
Depreciation and amortization	1,338,917	1,341,326
Interest	548,824	544,606
Provision for bad debts	890,332	840,815
Other operating expenses	<u>200,362</u>	<u>208,014</u>
 Total expenses	 <u>21,904,214</u>	 <u>21,666,256</u>
 Excess (deficiency) of revenues, gains and other support over expenses	 769,836	 (341,607)
 Change in net unrealized gains on investments other than trading securities	 (208,231)	 (473,777)
 Contributions from Hospital Auxiliary and others	 <u>\$ -</u>	 <u>56,550</u>
 Increase (decrease) in unrestricted net assets	 <u>\$ 561,605</u>	 <u>\$ (758,834)</u>

The accompanying notes are an integral part of these financial statements

**CRITTENDEN COUNTY HOSPITAL, INC.**

**Statements of Changes in Net Assets**

**September 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Unrestricted net assets:</b>		
Excess of revenues, gains and other support over expenses	\$ 769,836	\$ (341,607)
Net unrealized gains (losses) on investments, other than trading securities	(208,231)	(473,777)
Contributions from Hospital Auxillary and others	<u>-</u>	<u>56,550</u>
Total unrestricted revenues, gains and other support	<u>561,605</u>	<u>(758,834)</u>
<b>Temporarily restricted net assets:</b>	<u>-</u>	<u>-</u>
<b>Permanently restricted net assets:</b>	<u>-</u>	<u>-</u>
Increase (decrease) in unrestricted net assets	561,605	(758,834)
Net assets, beginning of year	<u>10,637,034</u>	<u>11,395,868</u>
Net assets, end of year	<u>\$ 11,198,639</u>	<u>\$ 10,637,034</u>

The accompanying notes are an integral part of these financial statements

# CRITTENDEN COUNTY HOSPITAL, INC.

## Statements of Cash Flows

Years Ended September 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>Cash flows from operations:</b>		
Excess (deficiency) of revenues, gains and other support over expenses	\$ 769,836	\$ (341,607)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,338,917	1,341,326
Net realized (gains) losses on investments, other than trading	189,943	(198,782)
(Gain) on sale of equipment	(9,779)	(12,447)
<b>(Increase) decrease in operating assets:</b>		
Patient accounts receivable	1,410,255	(835,322)
Estimated third-party payor settlements	(303,213)	-
Inventories	96,595	(81,443)
Other current assets	109,458	42,498
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable	(187,639)	(50,379)
Estimated third-party payor settlements	(1,617,570)	57,292
Accrued liabilities	20,756	(160,925)
<b>Net cash provided (used) by operations</b>	<u>1,817,559</u>	<u>(239,789)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(893,399)	(1,327,067)
Proceeds from the sale of property and equipment	9,779	12,447
Investment transactions, net	71,027	144,938
<b>Net cash (used) by investing activities</b>	<u>(812,593)</u>	<u>(1,169,682)</u>

The accompanying notes are an integral part of these financial statements

**CRITTENDEN COUNTY HOSPITAL, INC.**

**Statements of Cash Flows**

**Years Ended September 30, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
<b>Cash flows from financing activities:</b>		
Principal payments on long-term debt	<u>(320,300)</u>	<u>(327,206)</u>
<b>Net cash (used) by financing activities</b>	<u>(320,300)</u>	<u>(327,206)</u>
Net increase (decrease) in cash and cash equivalents	684,666	(1,736,677)
Cash and cash equivalents, beginning of year	<u>518,816</u>	<u>2,255,493</u>
Cash and cash equivalents, end of year	<u>\$ 1,203,482</u>	<u>\$ 518,816</u>
 <b>Supplemental Disclosures:</b>		
Cash interest paid	<u>\$ 543,972</u>	<u>\$ 544,606</u>
 <b>Non-cash investing and financing activities:</b>		
Property contributed from Hospital Auxiliary and others	<u>\$ -</u>	<u>\$ 56,550</u>

The accompanying notes are an integral part of these financial statements



# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies:

The following is a summary of significant accounting policies of Crittenden County Hospital, Inc.

#### A. Organization:

Crittenden County Hospital, Inc. ("Hospital"), located in Marion, Kentucky, is a not-for-profit organization operating an acute care hospital, two nursing facilities, and a home health agency. Admitting physicians are primarily practitioners in the local area. The hospital was incorporated in Kentucky in 1942 and is managed by QHR.

#### B. Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### C. Cash and Cash Equivalents:

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

At September 30, 2002, Crittenden County Hospital, Inc. maintained deposits of \$1,537,905 at four financial institutions. Of these bank balances, \$1,284,488 was covered by federal depository insurance or pledged securities and \$253,417 was neither insured nor collateralized as of September 30, 2002. However, management believes that the credit risk relating to these deposits is minimal.

#### D. Investments and Investment Income:

Investments are primarily carried through two commercial banks' agency accounts which consist of various investment pools, accounted for by units, and specific investment instruments. These investment pools consist of marketable debt and equity securities and are measured at fair value in the balance sheet.

# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies, Continued:

#### E. Assets Whose Use is Limited:

Assets whose use is limited include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets set aside in accordance with agreements with third-party payors; and assets held by trustees under indenture agreements.

#### F. Inventories:

Inventories are carried at lower of cost (primarily first-in, first-out) or market.

#### G. Property and Equipment:

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### H. Goodwill:

Goodwill and other intangibles are being amortized on a straight-line basis over periods estimated to be benefited, not exceeding 40 years. Management reviews intangible assets for possible impairment whenever events and changes in business circumstances indicate the carrying value of the assets may not be recoverable.

# **CRITTENDEN COUNTY HOSPITAL, INC**

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies, Continued:**

#### **I. Temporarily and Permanently Restricted Net Assets:**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors and are to be maintained by the Hospital in perpetuity.

#### **J. Excess of Revenues Over Expenses:**

The statement of operations includes excess of revenues over expenses. Changes in unrestricted assets, which are excluded from the excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

#### **K. Donor-Restricted Gifts:**

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

#### **L. Charity Care:**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

# **CRITTENDEN COUNTY HOSPITAL, INC**

## **Notes to Financial Statements**

### **1. Summary of Significant Accounting Policies, Continued:**

#### **M. Compensated Absences:**

Compensated absences are accrued when the employee's right to receive compensation for future absences is earned.

#### **N. Income Taxes:**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes.

### **2. Net Patient Service Revenue:**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

#### **A. Medicare:**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services and certain outpatient services are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Effective August 1, 2000, Medicare initiated the Outpatient Prospective Payment System, whereby certain outpatient services will be paid on a prospective basis. There are certain provisions that allow for transitional payments through 2004 if payments under the prospective method fall below what would have been paid on the cost method. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

# **CRITTENDEN COUNTY HOSPITAL, INC**

## **Notes to Financial Statements**

### **2. Net Patient Service Revenue, Continued:**

#### **B. Medicaid:**

The Commonwealth of Kentucky Department for Medicaid Services reimburses the Hospital for care rendered to Medicaid patients based on a facility-specific per-diem amount for inpatient care. Certain outpatient services related to Medicaid beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports filed by the Hospital and audits thereof by Medicaid. The Kentucky General Assembly enacted legislation which established a healthcare provider tax for the purpose of funding the Medicaid program. The tax on hospitals is 2.5 percent of net patient service revenue and contributions received. Long-term care services are taxed at 2 percent. In addition, this legislation provides for reimbursement to hospitals for indigent care patients below 150 percent of the federal poverty level through a Medicaid Assistance Indigent Trust Fund. Inpatient indigent days are paid at the hospitals' Medicaid inpatient per-diem amount. Outpatient visits are converted to inpatient day equivalents. The Hospital incurred \$458,587 and \$434,444 in provider taxes for the years ended September 30, 2002 and 2001, respectively.

#### **C. Indigent Care Reimbursements:**

In addition to the Medicaid cost reimbursement program, the Kentucky 1992 General Assembly created a disproportionate share Medicaid plan for indigent care. The distribution formula for indigent care under the plan gives special consideration to care provided to Medicaid patients beyond 14 days, services provided to indigents below 150% of the federal poverty level, and the percentage of each facility's Medicaid patient volume to its total patient volume. The Hospital received payments under the disproportionate share plan in the amounts of \$72,196 and \$149,742 for the years ended September 30, 2002 and 2001, respectively.

The Hospital has also entered into preferred provider agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements is a discount from established charges.

# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 3. Investments:

#### Assets Whose Use Is Limited:

The composition of assets limited as to use at September 30, 2002 and 2001 is set forth in the following table. Investments are stated at fair value.

	2002	2001
By board for capital acquisition:		
Cash equivalents	\$ 101,809	\$ 140,608
U. S. Treasury obligations	1,382,847	2,071,525
Mutual funds	1,975,806	1,725,111
Common stocks	1,280,206	1,288,844
Accrued income and other	25,776	33,575
Held by trustee under indenture agreement		
Trustee agency accounts in commercial bank trust departments	339,486	326,899
	<u>\$ 5,105,930</u>	<u>\$ 5,586,562</u>

### 4. Property and Equipment:

A summary of property and equipment at September 30, 2002 and 2001 follows:

	2002	2001
Land	\$ 237,482	\$ 212,482
Land improvements	641,147	641,147
Building and improvements	11,695,217	11,464,216
Equipment and furniture	11,082,575	10,521,815
Equipment held under capital lease	943,297	943,297
	24,599,718	23,782,957
Less accumulated depreciation and amortization	14,130,830	12,875,130
	<u>10,468,888</u>	<u>10,907,827</u>
Construction in progress	34,835	18,705
Property and equipment, net	<u>\$ 10,503,723</u>	<u>\$ 10,926,532</u>

Depreciation and amortization expense on property and equipment charged to operations was \$1,338,917 and \$1,341,326 in 2002 and 2001, respectively.

# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 5. Other Non-current Assets:

Other non-current assets consisted of the following as of September 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Goodwill	\$ 46,217	\$ 48,047
Deferred debt issuance costs	<u>44,489</u>	<u>49,237</u>
	<u>\$ 90,706</u>	<u>\$ 97,284</u>

Amortization expense on intangible assets charged to operations was \$6,578 and \$36,050 in 2002 and 2001, respectively.

### 6. Long-Term Debt:

A summary of long-term debt at September 30, 2002 and 2001 is as follows:

	<u>2002</u>	<u>2001</u>
6.03% First Mortgage Refunding and Improvement Revenue Bonds of 1995, due annually in amounts ranging from \$220,000 to \$585,000. Final scheduled maturity is January 1, 2016. (1)	\$ 5,205,000	\$ 5,410,000
5.77% KADD Small Issuer's Loan Program (1996), due in semiannual installments in amounts ranging from 60,200 to the final payment in the amount of \$2,353,900 due May 20, 2004.	<u>2,539,700</u>	<u>2,655,000</u>
	7,744,700	8,065,000
Unamortized bond discount on 1995 bonds	<u>(61,474)</u>	<u>(66,174)</u>
	7,683,226	7,998,826
Less current maturities	<u>342,100</u>	<u>320,300</u>
Long-Term debt, excluding current maturities	<u>\$ 7,341,126</u>	<u>\$ 7,678,526</u>

# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 6. Long-Term Debt, Continued:

- (1) Under the terms of the 1995 refunding and improvement revenue bond, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The Hospital is also subject to certain restrictive covenants.

Scheduled principal repayments on Long-Term debt for the next five years ending September 30 are as follows:

<u>Year ending September 30,</u>	<u>Amounts</u>
2003	\$ 290,000
2004	342,100
2005	2,652,600
2006	255,000
2007	270,000
2008 and thereafter	3,935,000
	<u>\$ 7,744,700</u>

Substantially all of the Hospital's assets are pledged as collateral on its short-term and long-term indebtedness.

### 7. Defined Contribution Pension Plan:

The Hospital maintains a defined contribution pension plan covering substantially all employees not covered by a collective bargaining agreement. Pension plan expense for the years ended September 30, 2002 and 2001 amounted to \$231,313 and \$217,250, respectively.

Effective January 22, 1998, the pension plans of the Hospital were frozen, and replaced by a new 401(k) profit-sharing plan that encompasses all employees of the Hospital and its wholly owned subsidiary. Under the new plan, a participant may make elective deferral contributions to the Plan ranging from 1% to 15% of compensation, not to exceed \$11,000, for 2002 and \$10,500 for 2001, as adjusted annually pursuant to Section 402(g)(1) of the Internal Revenue Code.

Employer matching contributions shall be made to the Plan on behalf of participants who make elective deferral contributions. The Plan states that the matching contribution is calculated as a percentage of eligible contributions, not to exceed 4% of the participant's compensation.



# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 8. Operating Lease Commitments:

The Hospital leases various equipment and facilities under operating leases. Total rental expense in 2002 and 2001 for all operating leases was approximately \$127,137 and \$129,086, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2002, that have initial or remaining lease terms in excess of one year.

Year ending  
September 30

Amount to  
be Paid

2002

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### 9. Contingencies:

#### A. Letter of Credit:

The Hospital has signed a standby letter of credit with Union Planters Bank used to secure the 1995 bond issue. At September 30, 2002 and 2001, the balance outstanding was zero, respectively.

#### B. Litigation:

The Hospital is involved in litigation arising out of the normal course of business. After consultation with legal counsel, management estimated that these matters will be resolved without material adverse effect on the Hospital's future financial position and results from operations.

### 10. Concentrations of Credit Risks:

The Hospital's operations are located in rural western Kentucky. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. As of September 30, 2002 and 2001 accounts receivable consisted of the following categories of patients and third-party payors:

# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 10. Concentrations of Credit Risks, Continued:

	<u>2002</u>	<u>2001</u>
Medicare	36%	38%
Medicaid	28%	25%
Other third-party payors (none over 10%)	22%	22%
Private pay	14%	15%
	<u>100%</u>	<u>100%</u>

### 11. Fair Value of Financial Instruments:

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

**Cash and cash equivalents:** The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

**Investments:** Fair values, which are amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

**Assets limited as to use:** These assets consist primarily of cash and short-term investments and interest receivable. The fair value of these items was estimated using quoted market prices, for similar securities. The carrying amount reported in the balance sheet is fair value.

**Accounts payable and accrued expenses:** The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

**Estimated third-party payor settlements:** The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

**Long-Term debt:** The carrying amount of the Hospital's Long-Term debt as reported in the financial statements approximates its fair value.

# CRITTENDEN COUNTY HOSPITAL, INC

## Notes to Financial Statements

### 11. Fair Value of Financial Instruments, Continued:

The carrying amounts and fair values of the Hospital's financial instruments at September 30, 2002 and 2001, are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,203,482	\$ 1,203,482	\$ 518,816	\$ 518,816
Assets limited as to use	5,105,930	5,105,930	5,586,562	5,586,562
Accounts payable and accrued expenses	1,483,411	1,483,411	1,613,245	1,613,245
Estimated third-party payor settlements	-	-	1,617,570	1,617,570
Long-term debt and capital lease obligations	7,683,228	7,683,226	7,998,826	7,998,826

### 12. Charity Care:

The amount of charges foregone for services and supplies under the Hospital's charity care policy aggregated approximately \$72,176 and \$149,742 in the years ended September 30, 2002 and 2001, respectively.

### 13. Advertising Costs:

Advertising costs are charged to expense as incurred. Advertising expense for the year ended September 30, 2002 and 2001 were \$29,611 and \$28,006, respectively.

### 14. Other Commitments:

On July 28, 1993, the Hospital entered into a management agreement with QHR. On December 9, 1997 the contract was renewed and extends through July 31, 2003. Management fees approximate \$200,000 per year and are adjustable based on the increase in the Medical Consumer Price Index. QHR is also directly reimbursed by Crittenden Health Systems for the compensation package for the Chief Executive Officer and the Chief Financial Officer.

### 15. Reclassifications:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.